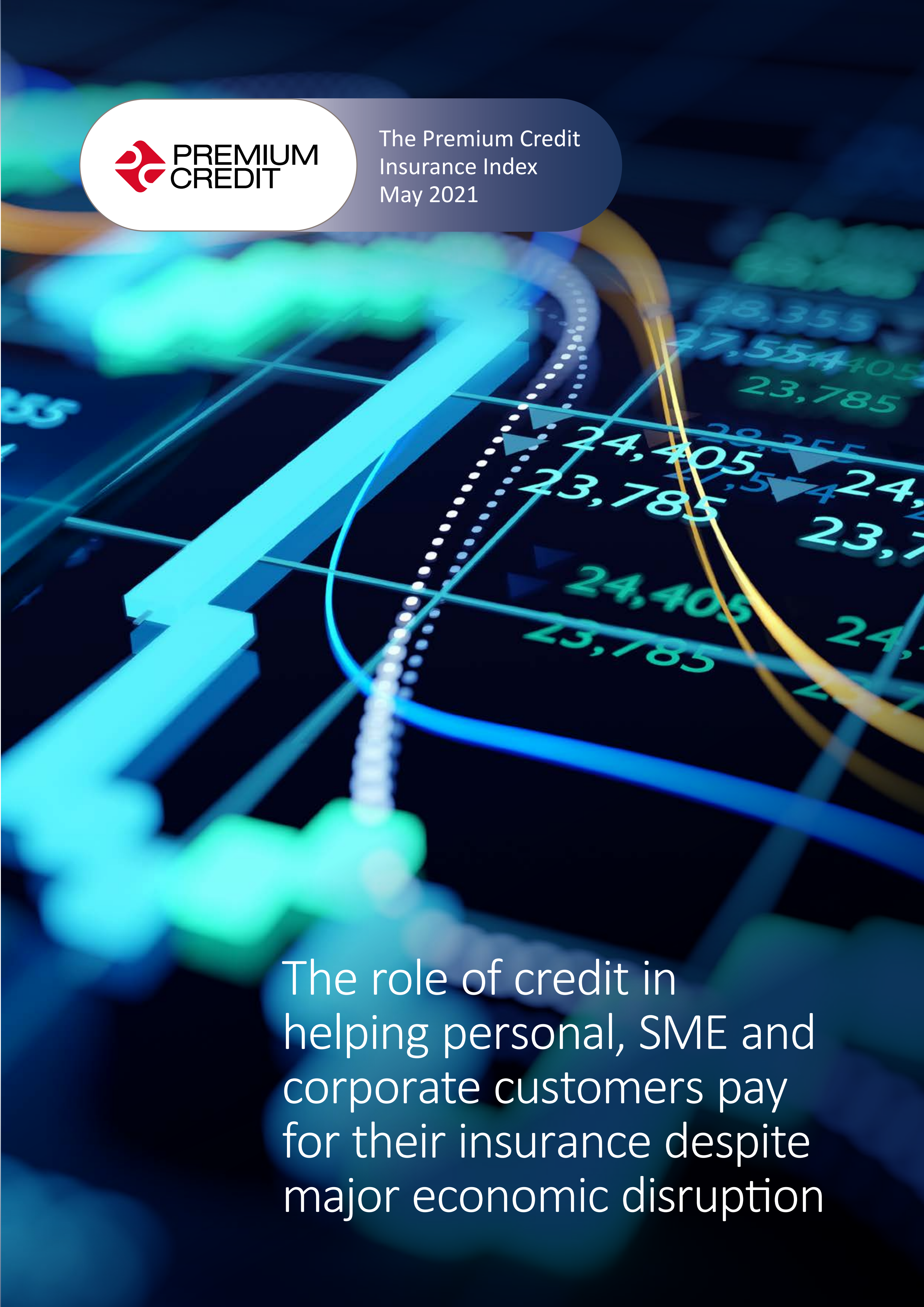


The Premium Credit Insurance Index
May 2021

The role of credit in helping personal, SME and corporate customers pay for their insurance despite major economic disruption

Introduction

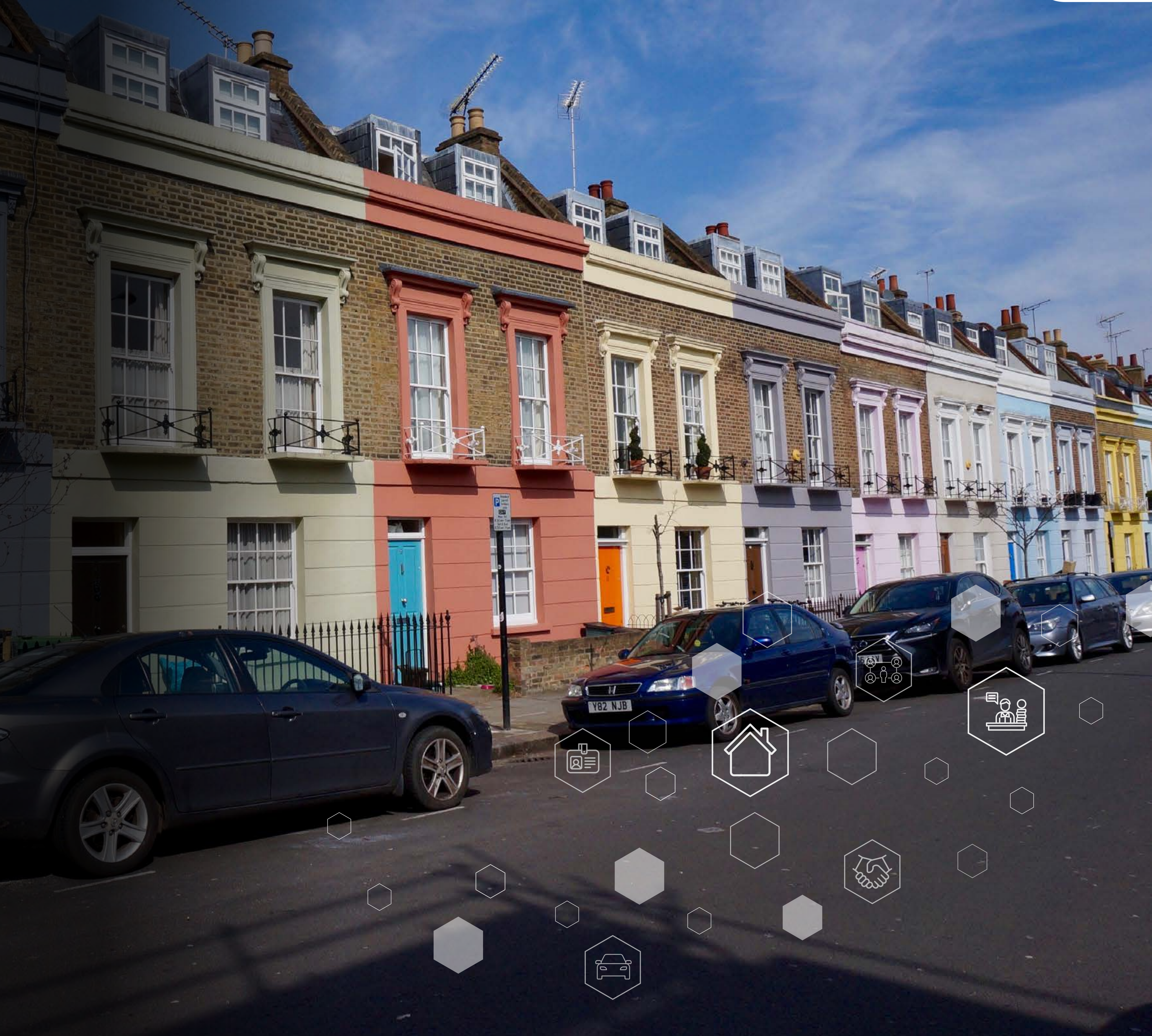
We have been monitoring the views and experiences of personal as well as SME and corporate customers when buying insurance and the use of credit during the past year as part of our Premium Credit Insurance Index.

The first index, published in October last year, focused on the immediate impact of the COVID-19 crisis on all customers and how they had changed their buying habits, shifting priorities in the wake of the pandemic.

Earlier this year, the ABI reported that the average price motorists paid for their motor insurance in 2020 was at a four year low, and similarly Consumer Intelligence also recently reported that home insurance premiums have fallen. In contrast to this, many commercial insurance premiums have been rising.

Our second index expands on the initial findings through exclusive national research among 1,014 insurance buying adults aged 18-plus and 291 SME owners and managers conducted in March and April this year.

In addition, analysis includes a review of our own lending data from 2019 and 2020, with the aim of determining how customers are using premium finance and the impact COVID-19 has had on demand.



Index findings

The study shows widespread use of credit by both consumers, SMEs and corporates to pay for insurance, as the statistics below demonstrate.

Consumer: Which insurance products did you purchase using credit?

(All people who use credit to buy insurance)

73%
Car insurance

60%
Home insurance

31%
Life insurance

26%
Pet insurance

20%
Health insurance

20%
Travel insurance

12%
Critical illness cover

48%
Specialist insurance (boat, horse etc)

SME & Corporate: Which insurance products did you purchase using credit?

(All SME and Corporate who use credit to buy insurance)

75%
Vehicle insurance

52%
Property insurance

30%
Employer liability insurance

26%
Business interruption insurance

22%
Cyber insurance

17%
Key man insurance

10%
Directors and officers insurance

Index findings

Our second index shows that of those personal, SME and corporate customers who use credit to help pay for their insurance policies, the total amount they are borrowing is generally increasing, highlighting the growing role of credit in the funding of insurance premiums.

The role of premium finance in supporting insurance customers is growing, but the concern is that some individuals, SMEs and corporates are relying on general and potentially expensive forms of credit.

Premium finance is ideally placed to achieve strong growth, but the market needs to do more to explain how it can help support all customer types.

Key findings

- Since the Coronavirus crisis started, 10% of people with car insurance have switched to paying for this monthly to help spread the cost. However, 7% now pay for it in one go when they used to pay for it monthly. The corresponding figures for those with home insurance are 9% and 6% respectively
- Our research found that over the past year, 16% of people have borrowed more to help pay for their cover, compared to 6% who have taken on less credit or the same amount
- Of those individual customers who use credit to fund some or all of their insurance cover, 64% borrowed more in total to do this over the past 12 months than in the previous year
- Of these individual customers who have borrowed more over the past 12 months, their borrowing increased by £598 on average when compared to the previous year
- Around one in twenty (5%) of those who use credit to pay for their insurance have cancelled or amended buildings insurance over the past year because of not being able to afford all of their insurance cover, while 7% have cancelled or amended their contents insurance
- Nearly one in ten (9%) people who borrow to pay for insurance have had to sell their cars over the past year because they could not afford the total cost of all their insurance cover. This is three times higher than this time last year
- Nearly one in three (32%) of SMEs and corporates say they use credit to fund at least one of their insurance policies
- Of those SMEs and corporates who use credit to fund their insurances and have borrowed more over the past year, their average increase in credit used is nearly £1,300
- The COVID-19 crisis is a major reason for increased use of credit for some individuals, SMEs, and corporates. Of those people who have borrowed more over the past 12 months to pay for their insurance, one in five (19%) said it was because they were furloughed. Around 75% of SMEs who use credit to pay for their insurance and have borrowed more blame COVID-19 for increased borrowing
- But it's not just COVID-19 – despite many insurance product premiums falling for most consumers, around one in five individuals (19%) who have switched to use more credit to help pay for premiums over the past 12 months blame price rises from insurers, and 36% of SMEs say the same. However, 19% of consumers using more credit to pay for cover say it is because credit is cheap
- Our own data shows a 6% rise in total net advances in 2020 from the previous year, despite a small rise in policy numbers. The big growth has come from commercial insurance where SME and corporate customers are choosing premium finance, total net advances are up 11% year on year

Index findings

Some consumers are taking risks with credit and insurance.

Our index shows that many people are feeling the financial pain of trying to pay for their insurance. Some 10% of those who use credit to pay for premiums have taken on more work to help do this, sold their car (9%) and/or cancelled or reduced their insurance cover (7%).

What have you done in the past 12 months as a result of not being able to afford your insurance?

(Percentage of customers who use credit and have taken this action)

10% Taken on more than one job

9% Sold my car

7% Cancelled or amended home contents cover

6% Had a pet put down because I couldn't afford veterinary treatment

5% Cancelled or amended buildings insurance

4% Driven without insurance

On average consumers who use credit to pay for their insurance and have borrowed money have taken on an extra £598 of credit compared to last year.

The impact of the COVID-19 crisis is driving the rise in the use of credit to pay for insurance among many people, with one in five (19%) who have borrowed more saying it is because they were furloughed.

However, nearly a fifth (19%) of those who have borrowed more to pay for their insurance say it is because their insurance premiums have increased, while 21% say it's due to credit being so cheap, which means it makes sense to borrow money to fund insurance. Other ways of cutting costs include switching how they pay - research found around one in ten car insurance and home insurance customers have switched from paying in a lump sum to paying monthly in the past year.

Of those customers who are borrowing money to help pay for their insurance, 45% are relying on credit cards and 43% are using the finance offered by insurers and/or premium finance.

Of those using credit, the percentage of people who use this type of funding

45% Credit card

43% Finance from insurer and/or premium finance

13% Personal loan

11% Borrowing from friends or family

4% High interest loan

The credit issue is potentially problematic for some - around 13% of those questioned in the most recent survey say they have found it more difficult to secure credit since the COVID-19 crisis started and 15% say they have been rejected for a credit card.

Around one in ten borrowers say they have missed one or more payments on credit in the past year, while one in twelve (8%) are worried they might miss payments in the next 12 months. This statistic highlights the importance of a robust assessment of affordability to ensure the appropriate finance is offered to the customer.

The impact of Covid-19 and the associated economic crisis has not been financially bad for all – around 35% questioned said their savings had increased as a result of the pandemic and lockdowns, compared to 29% who have seen them fall.

Jon Howells, Chief Commercial Officer at Premium Credit said:

"Premium finance is specifically designed for insurance buyers. Using the right credit to maintain important insurance policies is sensible. Looking to spread the cost of an annual policy into more manageable monthly payments works for many consumers and businesses."

"The use of premium finance is increasing in both personal and commercial lines insurance. Growth is being driven by the fallout from the pandemic, but also insurers and intermediaries increasingly providing their customers with a range of payment options for their insurance. We typically see penetration rates of 45% or more with our partners in the personal lines market, and 25% plus for those working in commercial insurance."

Index findings

SME and corporate customers are keeping their cover with credit.

The clear message from SME owners and managers is that many are borrowing more - nearly one in four of those who use credit to pay for their insurance policies say they have increased their borrowing in the past year by an average of nearly £1,300.

How much extra has been borrowed this year compared with the previous year?

(Percentage of SMEs interviewed who have borrowed more over the past 12 months to help pay for their insurance)

5%
Up to £100

18%
Between £100 and £500

32%
Between £501 and £1,000

27%
Between £1,001 and £2,000

5%
Between £2,001 and £3,000

5%
Between £3,001 and £5,000

5%
More than £5,000

Nearly three out of four (73%) SME and corporate bosses who have borrowed more to pay for their insurance say the impact of COVID-19 is the main reason for this, but premium rises from insurers were also blamed by 36% of firms.

Contributing to why some SMEs are borrowing more to pay for their insurance is that their cash balances are being squeezed – around one in three firms (33%) say cash reserves have fallen during the COVID-19 crisis, while 7% say their firm has no cash reserves. Just 13% say they have seen a rise in cash reserves. This helps explain why 54% of the SMEs and corporates interviewed by us said they had used one or more government support schemes during the Coronavirus crisis.

Of those SMEs and corporates using credit to help pay for their insurance, 60% say they are using credit cards, while 40% are taking finance from insurers and/or using premium finance. One in four (24%) are using personal or business loans.

One in eight (12%) firms have found it tougher to borrow, while 14% say they have defaulted on payments in the past year and 20% worry they may do so in the coming year.

Many are using finance from insurers or premium finance, and this is reflected in our own data. Our net advances for commercial insurance increased by 11% in 2020 compared with the previous year even though the number of policies only rose marginally.

Some businesses have cancelled insurance cover because of cost. Our findings show that nearly one in ten (9%) firms have suffered damage to property or belongings they were unable to claim for because of not having insurance or being underinsured in the past five years. Average losses as a result were around £2,000.

Owen Thomas, Chief Sales & Marketing Officer at Premium Credit said:

“SMEs and corporates have demonstrated their resilience and adaptability through the COVID-19 crisis and that has included making good use of credit to ensure they can maintain business critical insurance.”

“Now they are starting to see the light at the end of the COVID-19 tunnel, it is important that they plan for the future and it is worrying that so many are relying on credit cards, which can be an expensive way to pay for insurance if for example, you only pay the minimum payment required each month. Their insurance broker will be able to advise on how best to fund the appropriate level of cover for their business.”

Premium Credit Performance

Strong lending growth across the UK

Analysis of our Insurance Premium lending data shows strong growth in 2020 compared with the previous year.

Total net advances were 6% higher than in 2019 and net policy count increased marginally.

Commercial net advances were the engine of growth and increased by 11% in 2020, while personal net advances performed robustly.

This points to more and more firms and individuals finding out about the benefits of premium finance in the past year. However, we believe that more growth is possible as the penetration of all lending to SMEs and corporates, as well as individuals, is comparatively small.

Too many people and businesses are relying on credit cards and other potentially expensive and inefficient ways of funding insurance premiums.

Across the UK, the split of lending has remained broadly consistent. London was where we lent the most, with the capital accounting for 9% of total lending – a small increase on 2019's total.

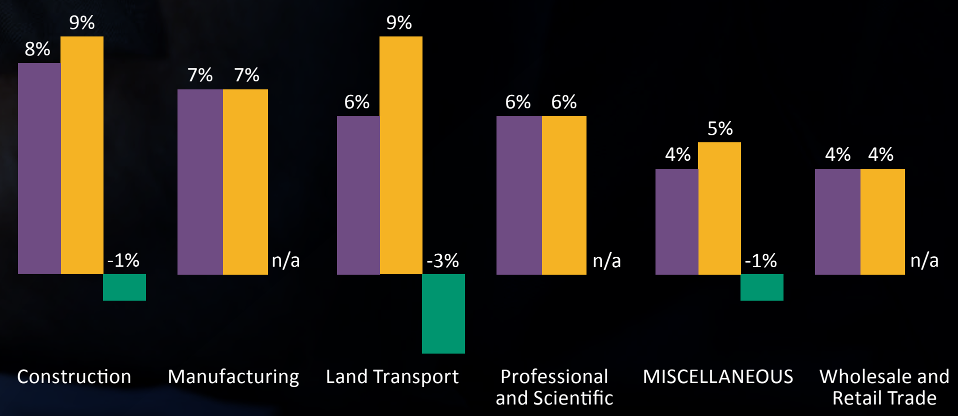
Lancashire was the second strongest region for us, accounting for 7% of all lending compared with the previous year.

The table below shows the top five counties in terms of their overall percentage of total net advances in 2020 and 2019.

2020 Top 5

The top 5 industry sectors in terms of their overall percentage of total net advances in 2020 and 2019 shows construction is the biggest, although its total share fell from 9% in 2019 to 8% in 2020.

2020 Top 5 sectors



In conclusion

A growing role for premium finance

Premium finance plays an important role in helping personal customers, SMEs and corporates as well as individuals to manage the cost of buying insurance.

It enables customers to pay monthly for cover instead of in a lump sum for a small charge and is a very cost competitive means for customers to buy insurance and better manage their finances through spreading payments, which helps with cashflow and preserves working capital for businesses. At a time when insurance is becoming more expensive for many SMEs and corporates, as well as some individuals, it can be a good alternative to other forms of credit.

Research for the index shows personal customers, SMEs and corporates report increasing concerns about defaulting in the future. Around one in five SMEs using credit are concerned about not being able to make payments in the next 12 months. This further highlights the importance of all customers choosing the right credit product, and those credit providers are completing the appropriate checks to ensure this risk is minimised.

The use of credit cards could be potentially worrying if customers are only paying the minimum required each month – 60% of SMEs and corporates who borrow to help pay for their insurance are using plastic while 45% of consumers who use finance to help pay for their premiums use credit cards.

The biggest risk, however, is still not buying the correct type or level of insurance and being left without cover. Being underinsured or not having any insurance can be very costly as unfortunately many have found out.

Almost one in ten SMEs questioned (9%) and 14% of consumers have in the past five years not been able to claim for damage because they were not insured or were underinsured.

Insurers, brokers and premium finance can help to address this issue and ensure customers have the right insurance at the most competitive price.

About Premium Credit Limited

Premium Credit is a leading provider of premium finance and a range of annually charged services, including professional and golf memberships, tax, school fees and season tickets. Each year, we lend £3.6 billion to over two million customers through a network of almost three thousand partners. Premium Credit is the only premium finance provider accredited by BIBA. For more information, please visit: www.premiumcredit.com

Sources

- Independent research conducted by Consumer Intelligence online among a nationally representative sample of 1,014 adults aged 18-plus between March 26th and 29th 2021
- Independent research conducted by Consumer Intelligence online among a nationally representative sample of 1,085 adults aged 18-plus on August 20th, 2020
- Independent research conducted by Consumer Intelligence online among a nationally representative sample of 1,085 adults aged 18-plus between March 12th and 13th 2020
- Independent research conducted by Consumer Intelligence online among 291 SME owners and managers between April 1st and 3rd 2021
- Analysis of Premium Credit's own data for 2019 and 2020
- Independent research conducted by Consumer Intelligence online among 156 SME owners and managers between August 20th and September 3rd, 2020

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